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DIRECT TESTIMONY
(PUBLIC VERSION)

of

MICHAEL McNALLY

Finance Department
Financial Analysis Division
Illinois Commerce Commission

Wisconsin Energy Corporation, Integrys Energy Group, Inc., Peoples Energy, LLC, The
Peoples Gas Light and Coke Company, North Shore Gas Company, ATC
Management, Inc., and American Transmission Company, LLC

Joint Application for Approval of a Reorganization
Pursuant to Section 7-204 of the Public Utilities Act

Docket No. 14-0496

November 26, 2014

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WITNESS IDENTIFICATION

Q1. Please state your name and business address.

A1. My name is Michael McNally. My business address is 527 East Capitol Avenue, Springfield, IL 62701.

Q2. What is your current position with the Illinois Commerce Commission (“Commission”)?

A2. I am a Senior Financial Analyst in the Finance Department of the Financial Analysis Division.

Q3. Please describe your qualifications and background.

A3. I received both a Bachelor of Arts degree in Economics and a Master of Business Administration degree with a concentration in Finance from the University of Illinois at Urbana-Champaign. I earned the Chartered Financial Analyst designation from the organization now known as the CFA Institute in 2003. I have been employed by the Commission since 1999 and have previously testified before the Commission on a variety of financial issues.

Q4. Please state the purpose of your testimony in this proceeding.

A4. Wisconsin Energy Corporation (“WEC”), Integrys Energy Group, Inc. (“Integrys”), Peoples Energy, LLC (“Peoples Energy”), The Peoples Gas Light and Coke Company (“Peoples Gas”), North Shore Gas Company (“North Shore Gas”) (together, Peoples Gas and North Shore Gas are referred to as the “Gas Companies”), ATC Management, Inc., and American Transmission Company, LLC (all, collectively, the “Joint Applicants”) request approval of a reorganization

under which the Gas Companies would become wholly-owned subsidiaries of a new holding company, WEC Energy Group.

First, I will present my evaluation of the financial implications of the proposed reorganization under Sections 7-204(b)(4) and (b)(7) of the Public Utilities Act (“Act”), which states that in reviewing any proposed reorganization, the Commission must find that:

(4) the proposed reorganization will not significantly impair the utility’s ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure; and

(7) the proposed reorganization is not likely to result in any adverse rate impacts on retail customers.

Second, I present my evaluation and recommendation regarding the Gas Companies’ post-merger capital structure as it relates to Sections 6-103 and 9-230 of the Act. Section 6-103 requires that in any reorganization of a public utility, the Commission shall authorize the amount of capitalization, which shall not exceed the fair value of the property involved. Section 9-230 proscribes the inclusion in a utility’s rates of any incremental risk or increased cost of capital which is the result of a public utility’s affiliation with non-utility companies.

Q5. Please describe the proposed reorganization.

A5. Pursuant to the Agreement and Plan of Merger between Integrys and WEC, dated as of June 22, 2014 (the “Merger Agreement,” provided as Joint Applicants

Ex. 1.1), Integrys shareholders will receive \$18.58 in cash and 1.128 shares of WEC common stock in exchange for each share of Integrys common stock. (JA Ex. 1.0, 11) Following the proposed reorganization, Peoples Gas and North Shore Gas will become wholly-owned subsidiaries of a newly formed holding company, WEC Energy Group. The transaction will be financed through the issuance of new WEC stock and \$1.5 billion in new debt at the corporate level, which is projected to produce a capital structure for WEC Energy Group of 56% debt and 44% common equity. (JA Ex. 1.0, 11-12; JA Resp. to Staff DR MGM 2.04.)

Q6. Please summarize your findings and recommendations.

A6. In my judgment, the Joint Applicants' proposal will satisfy Section 7-204(b)(4) of the Act. However, it is not clear that the proposed reorganization will satisfy Section 7-204(b)(7) of the Act. Therefore, I present several conditions to mitigate any negative effects on rate payers that may arise as a result of the proposed transaction. I also recommend a reporting requirement that would address the requirements of Sections 6-103 and 9-230 of the Act.

SECTION 7-204(b)(4)

Q7. How do Peoples Gas and North Shore Gas currently obtain equity and debt capital?

A7. Currently, the Gas Companies obtain equity capital through their parent company, Integrys. (JA Ex. 2.0 REV, 8.) Each issues its own long-term debt in the private-placement market and raises short-term debt capital through a money pool with each other and Integrys; Peoples Gas also issues commercial paper backed by a five-year, \$250 million revolving credit facility that expires in June

68 2017. (JA Ex. 3.0, 7-8; Integrys Energy Group, Inc. Form 10-K for the fiscal year
69 ending December 31, 2013; JA Resp. to Staff DR MGM 3.01.)

70 **Q8. Do Peoples Gas and North Shore Gas currently have access to the capital**
71 **markets on reasonable terms?**

72 A8. Yes. Standard & Poor's ("S&P") has assigned the Gas Companies an A- issuer
73 rating. According to S&P, an obligor rated 'A' has a strong capacity to meet its
74 financial commitments, but is somewhat more susceptible to adverse
75 circumstances than higher rated entities. (Standard & Poor's, "Standard & Poor's
76 Rating Definitions," June 22, 2012.) Moody's Investors Service ("Moody's") has
77 assigned the Gas Companies an A2 issuer rating, which Moody's considers
78 upper-medium grade and subject to low credit risk. (Moody's Investors Service,
79 "Moody's Rating Symbols & Definitions," March 2007, 8.) In my opinion, a utility
80 with a sound credit profile, such as indicated by the Gas Companies' credit
81 ratings, has access to the capital markets on reasonable terms.

82 **Q9. How would Peoples Gas and North Shore Gas obtain equity and debt**
83 **capital following the proposed reorganization?**

84 A9. The Joint Applicants state that "Peoples Gas and North Shore will continue to
85 fund their operations and raise capital as they currently do." (JA Ex. 5.0, 11.)

Q10. How is the proposed reorganization expected to affect the Gas Companies' credit ratings?

A10. Following the merger announcement in June 2014, S&P revised the Gas Companies' credit outlook from stable to negative. Specifically, S&P, whose ratings reflects a group credit profile,¹ states:

The negative outlook on WEC, Integrys, PGL&C, and NSG reflects the potential negative effect on WEC's consolidated financial measures of the company's announced \$9.1 billion acquisition of Integrys. We expect that the incremental debt associated with this transaction will weaken WEC's financial measures. Therefore, we believe that the company's consolidated financial risk profile could fall toward the lower end of our "significant" financial risk profile category, leaving little room for underperformance relative to our forecast. A one-notch downgrade would be warranted if the adjusted funds from operations (FFO) / total debt ratio failed to improve in line with our expectations, and remained below 15% on a sustained basis.

Because there are no meaningful regulatory mechanisms in Illinois or other structural barriers that restrict access by Integrys to the assets and cash flow of PGL&C and NSG, the [issuer credit ratings] on PGL&C and NSG are aligned with that of the parent.

(Standard & Poor's, "Research Update: Wisconsin Energy And Integrys Ratings Affirmed On Announced Merger; Certain Outlooks Revised To Negative From Stable," June 23, 2014.)

Moody's, whose ratings reflect a stand-alone credit profile, likewise affirmed its A2 rating for the Gas Companies, but continued to assign them a stable outlook. While Moody's notes that "the amount of holding company debt compared to

¹ An S&P issuer credit rating reflects the influence a company's relationship with affiliates, such as a parent company, has on its stand-alone credit profile. Typically a company will be assigned the same issuer credit rating as its parent company, unless there are significant barriers limiting the rights and responsibilities of the parent and subsidiary for each other's resources and obligations.

Integrys's consolidated indebtedness will remain significant," it apparently does not expect the transaction to have a detrimental effect on the Gas Companies' stand-alone credit profiles. (Moody's Investors Service, "Rating Action: Moody's changes WEC's rating outlook to negative following acquisition announcement; places Integrys on review for upgrade after revealing plans to divest its retail business," June 23, 2014.)

Q11. Does WEC have access to the capital markets on reasonable terms?

A11. Yes, it does. Like the Gas Companies, WEC is currently rated A- by S&P and A2 by Moody's. However, unlike the Gas Companies, WEC's issuer ratings have a negative rating outlook from both S&P and Moody's as a result of the proposed transaction.

Q12. In your judgment, will the proposed reorganization significantly impair the Gas Companies' ability to raise necessary long-term capital on reasonable terms?

A12. No. As noted above, following the proposed reorganization, the Gas Companies might be assigned a lower S&P long-term issuer credit rating than today, but likely no lower than BBB+. In my opinion, BBB+ rated utilities, while slightly less creditworthy than an A- utility, still have access to the long-term capital markets on reasonable terms. As such, it is my judgment that the effect of the proposed reorganization on the Gas Companies' long-term credit ratings will not significantly impair their ability to raise necessary capital on reasonable terms.

Q13. How would the Gas Companies obtain short-term debt capital following the proposed reorganization?

A13. As noted above, the Gas Companies will continue to fund their operations and raise capital as they currently do, which includes raising short-term debt through a money pool with each other and Integrys as well as Peoples Gas's credit facility and commercial paper program.

Q14. How would the proposed reorganization affect Peoples Gas's commercial paper ratings?

A14. Currently, Peoples Gas's commercial paper ratings are A-2 and P-2 from S&P and Moody's, respectively. Based on my review of credit rating reports, there is no reason to expect that Peoples Gas's commercial paper ratings would be lowered following the reorganization. Although S&P has revised Peoples Gas's long-term credit outlook to negative, neither S&P nor Moody's has indicated that it expects to downgrade Peoples Gas's short-term ratings following the reorganization. Moreover, even if Peoples Gas's S&P long-term credit rating were lowered by up to two notches (i.e., from A- down to BBB), it would likely maintain its A-2 commercial paper rating, as S&P indicates that an A-2 commercial paper rating typically correlates with a long-term corporate credit rating in the A to BBB range. (Standard & Poor's, Corporate Ratings Criteria 2008, 13.) Therefore, Peoples Gas is likely to maintain its commercial paper ratings following the proposed reorganization.

S&P notes that short-term obligations rated A-2 are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories; however, the obligor's capacity to meet its financial commitment on the obligation is satisfactory. (Standard & Poor's,

Corporate Ratings Criteria 2008, 12.) According to Moody's, issuers rated P-2 have a strong ability to repay short-term debt obligations. (Moody's Investors Service, "Moody's Rating Symbols & Definitions," March 2007, 10.)

Q15. In your judgment, will the proposed reorganization significantly impair the Gas Companies' ability to raise necessary short-term capital on reasonable terms?

A15. No. The Joint Applicants intend to maintain the Gas Companies' means for accessing short-term debt, including their money pool with each other and Integrys; Peoples Gas's credit facility, which does not expire until June 2017; and Peoples Gas's commercial paper program. Further, it is unlikely that the proposed reorganization will harm Peoples Gas's commercial paper rating. As such, in my judgment, the effect of the proposed reorganization on the Gas Companies' short-term credit ratings will not significantly impair their ability to raise necessary capital on reasonable terms.

SECTION 7-204(b)(7)

Q16. Please describe the requirement set forth in Section 7-204(b)(7) of the Act and how it relates to the Gas Companies' post-merger costs of capital.

A16. Section 7-204(b)(7) states, "[i]n reviewing any proposed reorganization, the Commission must find that the proposed reorganization is not likely to result in any adverse rate impacts on retail customers." 220 ILCS 5/7-204(b)(7). Since the cost of capital is a component of a utility's rates, an increase in the Gas Companies' costs of capital could increase their rates, which would represent an adverse rate impact on retail customers.

Q17. Are the Gas Companies' costs of capital likely to increase because of the proposed reorganization?

A17. I do not know if it is likely, but it is certainly possible. As a consequence of the proposed reorganization, the Gas Companies' credit ratings have been assigned a negative rating outlook from S&P. With regard to rating outlooks, S&P states:

A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action.

Negative means that a rating may be lowered.

(Standard & Poor's, "Standard & Poor's Rating Definitions," June 22, 2012.) With regard to this transaction, specifically, S&P states:

The negative outlook on WEC, Integrys, PGL&C, and NSG reflects the potential negative effect on WEC's consolidated financial measures of the company's announced \$9.1 billion acquisition of Integrys. We expect that the incremental debt associated with this transaction will weaken WEC's financial measures. Therefore, we believe that the company's consolidated financial risk profile could fall toward the lower end of our "significant" financial risk profile category, leaving little room for underperformance relative to our forecast. **A one-notch downgrade would be warranted if the adjusted funds from operations (FFO) / total debt ratio failed to improve in line with our expectations, and remained below 15% on a sustained basis.**

Because there are no meaningful regulatory mechanisms in Illinois or other structural barriers that restrict access by Integrys to the assets and cash flow of PGL&C and NSG, the [issuer credit ratings] on PGL&C and NSG are aligned with that of the parent.

215 (Emphasis added, Standard & Poor's, "Research Update: Wisconsin Energy And
216 Integrys Ratings Affirmed On Announced Merger; Certain Outlooks Revised To
217 Negative From Stable," June 23, 2014.) All else equal, lower credit ratings would
218 lead to higher debt costs, which in turn, would lead to higher equity costs as well,
219 since higher debt costs increase financial risk.

220 **Q18. Is WEC's FFO / total debt ratio projected to fall below 15% on a sustained**
221 **basis?**

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229 **Q19. Do you have any recommendations to mitigate any effects on Peoples Gas**
230 **and North Shore Gas should WEC be downgraded?**

231 A19. In order to mitigate the effects of a potential credit rating downgrade of WEC, I
232 recommend the Commission apply the following conditions to any approval of the
233 proposed reorganization:

- 234 • Require Peoples Gas and North Shore Gas to maintain separate credit
235 facilities, not accessible to nor influenced by non-utility affiliates;

- 236 • Prohibit Peoples Gas and North Shore Gas from lending to non-utility
237 affiliates under Section 7-101 of the Act or Illinois Administrative Code Part
238 340;
- 239 • Prohibit Peoples Gas and North Shore Gas from guaranteeing any obligations
240 of their non-utility affiliates;
- 241 • Require WEC to notify the Commission before increasing its proportion of
242 non-regulated operations and indebtedness; and
- 243 • Require Peoples Gas and North Shore Gas to register with the U.S.
244 Securities and Exchange Commission (“SEC”) or to present a detailed study
245 showing costs and savings of registration compared to remaining
246 unregistered.²

247 **Q20. Why are those conditions important?**

248 A20. The first three conditions will serve to insulate the Gas Companies from their
249 non-utility affiliates. The proposed transaction will expose the Gas Companies to
250 the obligations of a new corporate parent (and its subsidiaries) with a significant
251 level of debt. Those three conditions reduce the risk that the obligations of these
252 new non-utility affiliates would adversely affect the Gas Companies’ financial
253 health. Similarly, the fourth condition will permit the Commission to assess
254 whether further action would be necessary to insulate the Gas Companies from

² Under the Securities Act of 1933, any offer to sell securities must either be registered with the SEC or meet an exemption under Regulation D. Securities registered with the SEC can be issued without the restrictions of the Regulation D exemptions, allowing sales of those securities to and among the general public. (www.sec.gov.)

their affiliates, should WEC Energy Group decide to increase the potential influence of non-utility affiliates or indebtedness. The fifth condition will offset any increase in the Gas Companies' costs of capital due to a ratings downgrade by increasing the liquidity of the Gas Companies' debt securities.

SECTIONS 6-103 AND 9-230

Q21. Why is it necessary to review the capitalization that is expected for the Gas Companies following the proposed reorganization?

A21. Section 6-103 of the Act requires that in any reorganization, the Commission shall authorize the amount of capitalization of a public utility formed by a reorganization, which shall not exceed the fair value of the property involved. 220 ILCS 5/6-103. Furthermore, in prior merger/acquisition proceedings involving Illinois utilities, the Commission has preemptively addressed concerns regarding potential violations of Section 9-230, which prohibits the Commission from reflecting in a utility's rates any incremental risk or increased cost of capital which is the result of a public utility's affiliation with non-utility companies. AGL Resources Inc. et al., Order, ICC Docket No. 11-0046, 30-31 (December 7, 2011); 220 ILCS 5/9-230. Similarly, in a recent discussion of this proceeding, as it relates to the Gas Companies' ongoing rate setting proceeding, the Commission cited the influence that WEC Energy Group's capital structure might have on the Gas Companies' financial condition and capital structures. (Tr., Bench Session, September 3, 2014, 17-22.) As noted above, WEC has chosen to fund the proposed transaction by significantly increasing its debt obligations at the corporate level, which creates higher financial leverage at the parent than at the operating companies and increases the risk to the operating companies, potentially necessitating a rate of return adjustment pursuant to Section 9-230.

While the Joint Applicants actually proffer potential reductions to the Gas Companies' costs of capital as a benefit of the proposed transaction, they indicate no expectations for changes in any of the components of cost of capital (i.e., capital structure and capital component costs) in the near term. (JA Ex. 1.0, 14; JA Ex. 3.0, 2; JA Resp. to Staff DR MGM 2.03) Staff believes the Companies should be required to demonstrate exactly how the proposed transaction will reduce the Gas Companies' costs of capital in this proceeding, as has been done in past such proceedings. At this stage in the proceeding, the only evidence of a change in the Gas Companies' costs of capital is from the potential reduction in their Standard & Poor's credit ratings, which would increase their costs of capital.

Q22. What effect would the proposed reorganization have on the capitalization of the Gas Companies?

A22. As noted above, the targeted post-merger capital structures for the Gas Companies are the same as those presented in their currently-pending rate cases. (JA Resp. to Staff DR MGM 1.01.) However, following the proposed reorganization, the SEC may require fair value adjustments (also referred to as "purchase accounting" and "push down accounting" adjustments) to the Gas Companies' balance sheets. The Joint Applicants believe they meet certain requirements that would exempt the Gas Companies from those purchase accounting adjustments; however, their analysis is not yet complete and is subject to review by independent auditors and the SEC. (JA Ex. 2.0, 4-5.) Thus, only after the Gas Companies file their first post-merger financial statements with the SEC would they know whether the SEC agrees with their conclusion that push down accounting adjustments are not required. Nonetheless, should it be required, the Joint Applicants have committed to reversing those adjustments for

305 rate setting purposes. Specifically, Joint Applicants' witness Scott J. Lauber
306 states:

307 The purchase accounting rules of the SEC generally require what is
308 known as "push-down accounting" for business combinations, such
309 that the separate financial statements of a subsidiary would reflect
310 any fair value adjustments required to be made along with good will
311 attributable to the subsidiary. The SEC rules, however, allow an
312 exception to push down accounting if certain conditions are met. If
313 those conditions are met, a subsidiary, such as Peoples Gas and
314 North Shore, can elect not to reflect push-down accounting in their
315 separate financial statements. The primary condition that permits
316 the exception to push-down accounting for business combination
317 requirements is if the subsidiary has significant public debt
318 outstanding, which we currently believe to be the case with Peoples
319 Gas and North Shore. As such, assuming all of the conditions are
320 met, we intend to apply the exception and not reflect the impact of
321 the acquisition on the books and financial statements of the Gas
322 Companies.

323 If push-down accounting is required, the goodwill associated with
324 the Reorganization will be recorded as an equity contribution from
325 the parent corporation. Therefore, if that occurs, the equity ratio of
326 the Gas Companies will be higher than they are today for book
327 purposes. For future rate-setting procedures, Wisconsin Energy
328 anticipates that any goodwill assets and related equity balances will
329 be disregarded in determining the overall cost of service for
330 Peoples Gas and North Shore. This will ensure that the push-down
331 has no effect on the common equity ratios of the Gas Companies
332 for ratemaking purposes.

333 (JA Ex. 2.0 REV, 4-6.)

334 **Q23. If there are purchase accounting adjustments to the Gas Companies'**
335 **balance sheets following the proposed reorganization, would the proposed**
336 **reorganization satisfy the requirement set forth in Section 6-103 of the Act?**

337 A23. If the Gas Companies' post-merger balance sheets reflect "push down"
338 accounting adjustments, then the Gas Companies' capitalization would not equal

original cost and the Commission would have to determine whether the post-merger capitalization of the Gas Companies' satisfies the requirements of Section 6-103 of the Act following the proposed reorganization.

Q24. If there are no purchase accounting adjustments to the Gas Companies' balance sheets following the proposed reorganization, would the proposed reorganization satisfy the requirement set forth in Section 6-103 of the Act?

A24. Yes. Absent purchase accounting adjustments, the Gas Companies' capitalization would equal original cost and, consequently, would satisfy the requirements set forth in Section 6-103 of the Act.

Q25. How do you recommend the Joint Applicants notify the Commission of the post-merger capitalization of the Gas Companies?

A25. I recommend the Commission require the Gas Companies to file a compliance report with a copy to the Manager of the Commission's Finance Department following the proposed reorganization that describes the Gas Companies' post-merger capital structures and identifies capital structure adjustments that result from the proposed reorganization. No further action would be required with regard to this recommendation if the Gas Companies' post-merger capital structures do not involve any push down accounting adjustments. On the other hand, if there are push down accounting adjustments to the Gas Companies' balance sheets, then the Commission should also require the Gas Companies to file a petition seeking Commission approval of the fair value studies and resulting capital structures for the Gas Companies' pursuant to Section 6-103 of the Act.

Q26. Would the proposed reorganization satisfy the requirement set forth in Section 9-230 of the Act?

363 A26. That is unlikely. The fact that S&P has assigned the Peoples Gas and North
364 Shore Gas a negative rating outlook indicates that the Gas Companies' credit
365 rating could be downgraded as a result of the proposed reorganization. Such a
366 downgrade would likely increase the Gas Companies' cost of capital, which
367 would necessitate an adjustment to the authorized rate of return pursuant to
368 Section 9-230 if not properly addressed beforehand. Furthermore, a credit rating
369 downgrade notwithstanding, a Section 9-230 adjustment would be necessary
370 because there is a limited debt capacity at the consolidated level, which means
371 that the Gas Companies cannot take full advantage of their debt capacities
372 without jeopardizing WEC Energy Group's current credit ratings and their own
373 S&P credit ratings due to S&P's practice of aligning subsidiary credit ratings with
374 those of the parent company. Adjusting the Gas Companies' capital structures
375 would be a reasonable method for addressing this issue, particularly in light of
376 the greater financial leverage expected at WEC Energy Group (56% debt)
377 compared to Peoples Gas (49.52% debt) and North Shore Gas (49.67% debt).
378 (JA Resp. to Staff DR MGM 1.01.) As such, if the Commission is to approve the
379 proposed reorganization, I recommend the Commission require a study of
380 appropriate post-merger capital structures for Peoples Gas and North Shore
381 Gas, similar to those ordered in Docket Nos. 11-0721 and 12-0001.
382 Commonwealth Edison Co., Order, ICC Docket No. 11-0721, 134 (May 29,
383 2012); Ameren Illinois Co., Order, ICC Docket No. 12-0001, 121 (September 19,
384 2012).³ The study, to be performed by the Gas Companies under the guidance
385 of the Commission's Finance Department Manager, should commence no later

³ Commonwealth Edison Company submitted the results of its study in Docket No. 13-0318 as ComEd Ex. 4.01. Ameren Illinois Company submitted the results of its study in Docket No. 14-0317 as Ameren Ex. 5.1.

386 than six months prior to, and be presented to the Commission in final form at the
387 time of or before, the filing of the Gas Companies' next rate case.

388 **CONCLUSION**

389 **Q27. Please summarize your conclusions.**

390 A27. In my judgment, the proposed reorganization will satisfy the requirements set
391 forth in Section 7-204(b)(4) of the Act.

392 In my judgment, it is not clear that the proposed reorganization will satisfy the
393 requirement set forth in Section 7-204(b)(7) of the Act since it does not identify
394 an acceptable means for eliminating any adverse rate impacts of the potential
395 declines in the Gas Companies' credit ratings on their costs of capital. At a
396 minimum, I recommend that any Commission approval of the proposed
397 reorganization be conditioned on the requirements and prohibitions set forth my
398 response to Question 19 above.

399 Further, for compliance with Sections 6-103 and 9-230 of the Act, I recommend
400 the Commission condition its approval of the proposed reorganization, in part, on
401 my proposed reporting requirements regarding the Gas Companies' post merger
402 capitalization set forth my responses to Questions 25 and 26 above.

403 **Q28. Do you have any further recommendations?**

404 A28. Yes. As a primary benefit of the proposed transaction, the Joint Applicants
405 repeatedly cite their expectation that the Gas Companies will have enhanced
406 access to capital markets on reasonable terms as a result of the scale of the
407 newly formed corporation. (See Application, 1-2; JA Ex. 1.0, 14; and JA Ex. 3.0,

408 9-10.) Assuming this emphasis on the benefits of the greater scale of the newly
409 formed corporation is warranted, it would be unnecessary to apply an adjustment
410 to the cost of common equity in future rate cases on the basis of the Gas
411 Companies' relatively small size. Thus, I recommend the Joint Applicants
412 commit to not seek recovery of any costs related to time spent by witnesses on
413 the development or presentation of cost of common equity size adjustments in
414 future rate cases.

415 **Q29. Does this conclude your direct testimony?**

416 A29. Yes, it does.